EX PARTE OR LATE FILED

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July 24, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Room 222
Washington, D.C. 20554

Re: Ex Parte Presentation -- CC Docket No. 96-98
Implementation of the Local Competition Provisions of the Telecommunications Act of 1996

Dear Mr. Caton:

On Wednesday, July 24, 1996, Bruce Cox, Joel Lubin and I met with Richard Metzger, Larry Atlas, Donald Stockdale, and Anna Gomez to discuss AT&T's previously stated position in the above cited proceeding. The attached material was furnished to the attendees.

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely,

Attachment

cc: Richard Metzger
Larry Atlas
Donald Stockdale
Anna Gomez

No. of Copies rec'd 0+2
List A B C D E

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JUL 24 1996

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INDUSTRY	USF DATA COLLECTION, CC: 96-262 FILED ON 8/28/96. FORM USF3013-0. CILP per mo. 1994	ADJUSTED CILP per mo. 1994
ALABAMA	22.04	21.25
ALASKA	31.80	29.84
ARIZONA	23.30	21.83
ARKANSAS	28.15	26.55
CALIFORNIA	17.21	16.16
COLORADO	21.70	20.36
CONNECTICUT	20.32	19.06
DELAWARE	17.83	16.74
DISTRICT OF COLUMBIA	6.42	5.99
FLORIDA	25.10	23.62
GEORGIA	25.88	24.83
HAWAII	23.09	21.30
IDAHO	25.86	24.31
ILLINOIS	13.95	12.86
INDIANA	19.26	17.80
IOWA	16.82	15.85
KANSAS	23.67	22.34
KENTUCKY	24.52	23.10
LOUISIANA	25.93	24.45
MAINE	28.12	26.20
MARYLAND	17.82	16.85
MASSACHUSETTS	18.77	17.61
MICHIGAN	18.90	17.49
MICRONESIA	58.80	54.25
MINNESOTA	19.05	17.84
MISSISSIPPI	28.88	27.57
MISSOURI	21.02	20.08
MONTANA	26.92	25.25
NEBRASKA	18.04	16.97
NEVADA	15.53	14.44
NEW HAMPSHIRE	27.89	26.02
NEW JERSEY	16.89	15.93
NEW MEXICO	26.09	24.51
NEW YORK	21.98	20.63
NO CAROLINA	25.10	23.88
NORTH DAKOTA	21.96	20.66
OHIO	18.94	17.55
OKLAHOMA	23.00	21.60
OREGON	23.00	21.50
PENNSYLVANIA	17.82	16.82
PUERTO RICO	29.73	28.37
RHODE ISLAND	19.10	17.91
SOUTH CAROLINA	28.82	27.32
SOUTH DAKOTA	20.40	19.27
TENNESSEE	22.40	21.18
TEXAS	22.02	20.76
UTAH	17.39	16.35
VERMONT	31.93	29.74
VIRGIN ISLANDS	46.70	43.45
VIRGINIA	21.00	19.77
WASHINGTON	19.59	18.24
WEST VIRGINIA	30.12	28.45
WISCONSIN	18.32	17.01
WYOMING	32.81	30.66
TOTAL INDUSTRY	20.69	19.45

RBOC	STATE	USF DATA COLLECTION, CC: 80-286 FILED ON 9/29/95. FORM USF3013-0. CLP per mo. 1994	ADJUSTED CLP per mo. 1994
SOUTH CENTRAL BELL-AL	ALABAMA	20.24	19.66
MOUNTAIN BELL-ARIZONA	ARIZONA	22.41	20.99
SOUTHWESTERN BELL-ARKANSAS	ARKANSAS	24.87	23.44
PACIFIC BELL	CALIFORNIA	14.79	13.92
MOUNTAIN BELL-COLORADO	COLORADO	21.45	20.13
DIAMOND STATE TEL CO	DELAWARE	17.83	16.74
C & P TEL CO OF WA D.C.	DISTRICT OF COLUMBIA	6.42	5.99
SOUTHERN BELL-FLORIDA	FLORIDA	25.63	24.19
SOUTHERN BELL-GEORGIA	GEORGIA	25.12	23.94
MOUNTAIN BELL-IDAHO	IDAHO	21.74	20.46
PACIFIC NORTHWEST BELL-IDAHO	IDAHO	26.52	25.05
ILLINOIS BELL TEL CO	ILLINOIS	12.86	11.63
INDIANA BELL TEL CO	INDIANA	17.17	15.72
NORTHWESTERN BELL-IOWA	IOWA	13.58	12.62
SOUTHWESTERN BELL-KANSAS	KANSAS	21.02	19.84
SOUTH CENTRAL BELL-KENTUCKY	KENTUCKY	23.40	22.03
SOUTH CENTRAL BELL-LOUISIANA	LOUISIANA	24.33	22.89
NEW ENGLAND TEL.-MAINE	MAINE	28.25	26.29
C & P TELEPHONE CO OF MARYLAND	MARYLAND	17.82	16.84
NEW ENGLAND TEL.-MA	MASSACHUSETTS	18.77	17.60
MICHIGAN BELL TEL CO	MICHIGAN	17.41	16.04
NORTHWESTERN BELL-MINNESOTA	MINNESOTA	17.47	16.29
SOUTH CENTRAL BELL-MISSISSIPPI	MISSISSIPPI	28.50	27.22
SOUTHWESTERN BELL-MISSOURI	MISSOURI	17.31	16.85
MOUNTAIN BELL-MONTANA	MONTANA	23.89	22.27
NORTHWESTERN BELL-NEBRASKA	NEBRASKA	16.34	15.40
NEVADA BELL	NEVADA	20.61	19.21
NEW ENGLAND TEL.-NH	NEW HAMPSHIRE	27.81	25.98
NEW JERSEY BELL	NEW JERSEY	16.64	15.71
MOUNTAIN BELL-NEW MEXICO	NEW MEXICO	23.86	22.42
NEW YORK TELEPHONE	NEW YORK	22.05	20.70
SOUTHERN BELL-NORTH CAROLINA	NO CAROLINA	25.83	24.64
NORTHWESTERN BELL-NORTH DAKOTA	NORTH DAKOTA	20.10	18.74
OHIO BELL TEL CO	OHIO	17.72	16.26
SOUTHWESTERN BELL-OKLAHOMA	OKLAHOMA	20.61	19.39
PACIFIC NORTHWEST BELL-OREGON	OREGON	21.99	20.57
BELL OF PENNSYLVANIA	PENNSYLVANIA	16.78	15.81
NEW ENGLAND TEL.-RI	RHODE ISLAND	19.10	17.91
SOUTHERN BELL-SOUTH CAROLINA	SOUTH CAROLINA	31.06	29.40
NORTHWESTERN BELL-SO DAKOTA	SOUTH DAKOTA	18.66	17.45
SOUTH CENTRAL BELL-TENNESSEE	TENNESSEE	22.50	21.24
SOUTHWESTERN BELL-TEXAS	TEXAS	19.76	18.72
MOUNTAIN BELL-UTAH	UTAH	16.75	15.74
NEW ENGLAND TEL.-VT	VERMONT	32.79	30.54
C & P TELEPHONE COMPANY OF VIRGINIA	VIRGINIA	19.80	18.49
PACIFIC NORTHWEST BELL-WASH	WASHINGTON	17.00	15.87
C & P TELEPHONE COMPANY OF W VA	WEST VIRGINIA	28.91	27.36
WISCONSIN BELL	WISCONSIN	15.69	14.33
MOUNTAIN BELL-WYOMING	WYOMING	31.80	29.66
RBOC TOTALS		19.30	18.14

ADJUSTMENTS MADE TO 1994 CALENDAR YEAR EMBEDDED LOOP COSTS REPORTED BY THE LECs

1. Adjustments made to the booked (embedded) amounts reported by the LECs on the Universal Service Data Collection Form. The adjustments to selected accounts effectively remove the "retail" portion of the embedded costs from the calculation of an average cost per loop for each LEC. The following accounts were adjusted:

....Account 6120 - General Support Expenses. 26% of the booked amounts were removed from the calculation of an adjusted average cost per loop. GSF expenses are associated with Land & Buildings, Furniture & Artworks, Office Equipment, and General Purpose Computer expenses.

....Account 6230 - Operator Systems Expenses. 100% of the booked amounts were removed from the calculation of adjusted average cost per loop. Operator Systems Expenses are associated with operator systems equipment.

....Account 6530 - Network Operations Expenses***. 20% of the booked amounts were removed from the calculation of an adjusted average cost per loop. Network Operations Expenses are associated with Power, Network Administration, Testing, Plant Operations Administration and Engineering.

***The avoided cost model only addressed Account 6533 - Testing, and Account 6534 - Plant Operations Administration. Work will be done to estimate what portion of total Account 6530 these expenses represent. By including all Account 6530 as subject to the 20% avoidable factor, our adjusted loop cost may be understated.

....Accounts 6710 - Executive & Planning and 672 - General Administration. 26% of the booked amounts were removed from the calculation of an adjusted cost per loop. These expenses include Executive, Planning, General, Administration, Accounting and Finance, External Relations, Human Resources, Information Management, Legal, Procurement, Research and Development, Other General and Administrative, and Provision for Uncollectible Notes Receivable.

2. Certain accounts are not reported in connection with developing an average cost per loop in the Universal Service Data Collection Form. These include:

....Account 6610 - Marketing Expenses. Product Management, Sales and Product Advertising are booked in this account.

....Account 6620 - Services Expenses. Call Completion Services, Number Services, and Customer Services (establishing and servicing customer accounts.)

WHO IS REALLY COMMITTED TO UNIVERSAL SERVICE?

UNIVERSAL SERVICE FUND - The most recent tariff filed by NECA (5/17/96) contains rates for the USF for the period 7/1/96 through 12/31/95 quantifies an annual USF of $753.1M in 1996. The fund is paid for only by IXCs that have in excess of 1/20th of one percent of the nationwide presubscribed lines.

LIFELINE ASSISTANCE (End User Subscriber Line Charge Waiver program and the Link-up program) - In the same tariff filing, the annual Lifeline Assistance for 1996 is $167.6M, once again funded solely by IXCs. The end user SLC waiver portion is $148.2M and the Link-up is $19.4M. The total $167.6M is recovered from IXCs. While the states may also ante up some support from tax revenues or other sources to "match" what the Federal contribution to the End User SLC waiver is (states are required to match), the total federal subsidy of $167.6M is paid for by IXCs.

Total federal USF and LA programs for 1996 amount to $920.7M. This amount is funded by 47 IXCs whose presubscribed line share (PSL) is more than 1/20th of one percent of the total. Based on PSL share, an estimate is that AT&T will pay approximately $617M, MCI $142M, Sprint $60M, LDDS 25M with the remainder picked up the other 43 smaller IXCs.

In a broader view of universal service, IXCs of course are required to pay significant subsidies in access charges. The interstate CCL is approximately $3.5B, and the RIC is about $2.5B.

AT&T has consistently been supportive of appropriate subsidies to low-income consumers. This has been articulated in the Comments and Replies rendered in numerous CC Docket 80-286 proceedings, and most recently in CC Docket 96-45.

The BOCs, on the other hand, have consistently taken moneys from IXCs and spun a story that they and <u>ONLY</u> they are the ones committed to preserving Universal Service.

SMITH BARNEY

Telecommunications/Services SF07D225

[redacted]

- *Key defined dates for implementing the Telecommunications Act of 1996 are August 8 (interconnection rules) and November 8 (subsidy recommendations).*
- *First FCC decision on Bell entry into long-distance: 4Q96-1Q97.*
- *We expect pricing and subsidy decisions to be even-handed but move industry toward cost basis.*
- *FCC views on Bell long-distance entry unclear. We expect such entry by mid-1997.*

Charles W. Scheike, CFA
(212) 816-6254
(610) 660-6217

Timothy K. Horan
(212) 816-5544

July 19, 1996

REC'D 7/23

- **Closing price of AT&T stock as of July 12, 1996 - 58 27/32, which equates to 58.844.**

- **As of Monday's closing, the composite pricing showed AT&T at 51 5/8.**

- **As of 1:00 p.m. today (7/23/96), both the NYSE and the composite showed AT&T at 51 1/8, or 51.125. This number reflects a loss of more than 13% or $7.72 per share.**

- **This decline equates to a loss of $12.5B market cap or wealth to AT&T investors in the past week alone.**

Q. In summary, what will be the key elements to look for in the interconnection ruling to determine whether this is a good or bad decision from a telephone industry standpoint?

A. The FCC decision will probably be complex and take some time to analyze. However, the key elements that would make this a reasonable decision from a telco standpoint are the following:

- **Either the CRPRM cost methodology (unlikely) or the TSLRIC methodology with inclusions of overheads and common costs.**

- **Network unbundling limited to six to eight elements (the FCC's Notice of Proposed Rulemaking lists four elements).**

- **Full telco recovery of the access subsidy (either through prohibition of IXC purchase of unbundled elements for access or, if such purchase is permitted, through additional IXC payments).**

LONG DISTANCE INDUSTRY REPORT
06:06am EDT 22-Jul-96 Smith Barney (SCHELKE/HORAN (212) 816-6254) T FON MCIC

--SUMMARY:----------

* We have just completed a review of the long-distance industry which will be published today, July 22.
* The study reinforced our previous outlook that the aggregate profitability of the long-distance operations of the Tier 1 companies will slow significantly and, for some companies such as AT&T, decline beginning in 1997/1998.
* The basis for these concerns is due to the fact that we believe that the Tier 1 companies have more to lose than they do to gain from the recent Telecom Act of 1996 (see comments below).
* We reiterate our 3M ratings on T, MCIC* and WCOM* and our 2M rating on FON#. However, we believe the both MCI and FON are priced at the point where they could have a trading rally.

--OPINION:----------

We have just completed an in-depth review of the long-distance industry which will be published today, July 22. The study reinforces our previous outlook that the aggregate profitability of the long-distance operations of the Tier 1 companies will slow significantly and, for some companies such as AT&T, decline beginning in 1997/1998. The basis for these concerns is our belief that the Tier 1 companies have more to lose than they do to gain from the recently passed Telecom Act of 1996. As a result of this legislation, the Bells will be able to enter the highly profitable long distance market without much difficulty. Concurrently, long-distance companies will be entering the local-exchange market, although we believe that it will prove unprofitable for them to do so, at least in the short term. We believe that the increased competition in long-distance will be severely detrimental to earnings to the Tier 1 companies for the following reasons:

(1) MORE CAPACITY. As competition intensifies, long-distance pricing will increasingly come under pressure due to the huge disparity between transport and end-user rates. Transport essentially costs about $0.01/minute vs. end-user rates of $0.10/minute, net of access. The availability of this cheap transport creates a significant opportunity for profitable resale.

(2) DECLINING PRICING. The Big Three (AT&T, MCI and Sprint, which have over 50% of the market) are especially vulnerable to competition in the hugely profitable international segment of the market, which accounts for over 50% of their operating income. Historically, competition in this market has been limited by governmental entry barriers; as these barriers are removed over the next several years, the huge profitability of this market will attract numerous competitors, which in turn will drive prices down to costs. The long distance companies' costs to provide international are less than $0.10/minute, compared to the $0.90/minute average retail price.

(3) ENTRY INTO LOCAL-EXCHANGE WILL NOT PROVIDE A FULL OFFSET. To offset the competitive pressures in their core businesses and to meet the long-term challenges of the Bells and other competitors, the Big Three must enter the local exchange market. However, it appears that resale discounts will only be in the 15%-20% range (vs. about 90% in long-distance), which is not enough to provide profitable resale, in our opinion. Thus, AT&T, MCI and Sprint will probably provide local exchange service through a combination of resale and owned facilities. Developments of the latter will be a costly and time consuming process and, in the initial years, will put pressure in earnings.

Based on this analysis, we reiterate our ratings of 3M (Neutral, Medium Risk) on AT&T and MCI*; 2M (Outperform, Medium Risk) on Sprint# and 3H

(Neutral, High Risk) on WorldCom*. However, the "Big Three" stocks have become significantly cheaper since we finished our report and we do believe that both MCI and FON are relatively cheap here and could rebound by 10%-15% near term.

* Smith Barney usually maintains a market in the securities of this company.

\# Within the last three years, Smith Barney or one of its affiliates was the manager (co-manager) of a public offering of the securities of this company or an affiliate.

Our full text research reports and associated graphs are now distributed over First Call Research Direct. For more information on this system, please call Research Direct sales at (800) 832-7354 Boston, 44 171 369 7298 London, 813 5213 7300 Tokyo, 852 2522 4159 Hong Kong, 65 295 5688 Singapore.
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